Managing in turbulent times

4 Drucker strategies for weathering the economic storm

FOREWORD:

Managing in turbulent times is going to become an important skill for most executives. Slow and low economic growth is now a near-certainty. Couple this with mounting government deficits financed by increased taxes and overworked government printing presses. And we have very clear clues to the near-term future.

Many economists predict galloping inflation, decreased purchasing power for the majority of consumers in developed economies, increased unemployment and more government intervention.

This mini-e-book attempts to provide an outline of principles & tested practices – based on the writings and theories of the "Master of Management" Dr. Peter F. Drucker - that could help you weather the already in-progress economic storm.

We welcome your tips, compliments, and complaints. It will help us in developing future Peter F. Drucker materials in multiple forms (e.g. print, video, technology-assisted learning web courses) that can assist you in thoughtfully and thoroughly figuring out what to do and how to do it.

"Every institution–and not only business–must build into its day-to-day management four entrepreneurial activities that run in parallel.

One is organized abandonment of products, services, processes, markets, distribution channels, and so on that are no longer optimal allocation of resources.

… Then every institution must organize for systematic, continuing improvement… Then it has to organize for systematic and continuous exploitation, especially of its successes.

… And finally it has to organize for systematic innovation, that is, to create the different tomorrow that makes obsolete, and to a large extent replaces even the most successful products of today."

- Peter F. Drucker

INTRODUCTION

We are always looking for acronyms to jog our memory. The only one we could come up with for this all-powerful Drucker formula for surviving in turbulent times is ACE – I (Abandonment, Continuous productivity improvement, Exploitation of successes, Innovation).

Neuroplasticity refers to the brain's ability to rewire itself. You get the brain you practice. Hopefully, after reading this article you will be on the road to rewiring your brain to make Drucker's ACE – I approach to managing in turbulent times a firmly ingrained habit.

It's worth the effort. But it will take practice, practice, and more practice.

Drucker firmly maintained that organized abandonment… continuous productivity improvement… exploitation of successes… and innovation must be converted into practices that can be taught, learned, and practiced.

Said Drucker: *"Practices, though seemingly humdrum, can always be practiced, whatever a person's aptitudes, personality, or attitudes. Practices require no genius – only application. They are things to do rather than to talk about."*

This mini e-book will look at each of these 4 strategies: Organized Abandonment, Continuous Productivity Improvement, Exploitation of Successes and Innovation.

Strategy #1: Organized Abandonment

Savvy executives *"start by thinking through what should be strengthened and built. They do not start by trying to save money. They start by trying to build performance."*- Peter F. Drucker

STRATEGY #1: ORGANIZED ABANDONMENT

Drucker wrote extensively about abandonment. Recognition of this concept is probably the single most important tactical guideline in the quest for economic results.

Abandonment of the unproductive and obsolete is the only real way to practice successful cost-cutting... and being able to achieve more with less.

Are you trying to do everything or concentrating on what delivers you results?

Abandonment means concentrating on result areas

Drucker asserted that *abandonment and concentration* are opposite sides of the same coin. By abandoning unproductive and sidetracking activities, executives increase their effectiveness by having more time to *concentrate* on result areas. We suggest you read this paragraph again.

We believe the way Drucker linked abandonment to concentration gives real meaning to the time-worn phrase "less is more."

Every organization has to cleanse itself of the products, services, and ventures that absorb resources but in reality have become "yesterday's news" They prevent the organization from concentrating on today's most promising result areas.

This insight is easy to understand but hard as nails to execute. It takes practice, practice, practice. But it will eventually click. Stay with it and the "aha" moment will eventually arrive – we hope.

To dominate you have to concentrate

Concentration is the key to economic results. Drucker often said: "*Managers must concentrate their efforts on the number smallest number* *of products, product lines, services, customers, markets, distributive channels, end-uses, and the like that produce the bulk of the revenues."*

No other principle of effectiveness is violated as constantly today as the basic principle of concentration.

Examples abound.

Many of today's universities and colleges moving into web-based degree-granting and certification programs are trying to be all things to all possible markets, and will inevitably fail.

They should be *concentrating* on a small number well-defined niches where they have an established core competency and can provide superior customer value… and grow those niches via usage of portals with a global reach.

Effective cost control requires abandonment

Focusing resources on results is the best and most effective cost control. Get rid of non-result areas and concentrate efforts on areas that can produce significant results.

Cost, after all, does not exist by itself. Said Drucker: *"Cost is always incurred – in intent at least – for the sake of a result…. What matters therefore is not the absolute cost level but the ratio between efforts and their results… No matter how cheap or efficient an effort, it is a waste, rather than a cost, if it is devoid of results…*

… Maximizing opportunities is therefore the principal road to a high effort/result ratio and with it to cost control and low costs."

One truly effective way to cut costs is to cut out an activity or program entirely. If our economy goes into a tailspin many organizations will inevitably resort to "hasty hatchet work." Drucker called this "amputation without diagnosis."

To try to reduce costs is rarely effective. There is little point in trying to do cheaply that which should not be done at all. By working systematically on directing efforts and resources toward opportunities and results maximizes the productivity of an organization.

Put bluntly: Abandonment of low-yield programs and activities is the only sure-fire way to reduce costs and increase profitability.

Once more: Every organization must be able to move scarce and expensive resources – especially first-rate people – from areas of low productivity and non-results to areas of opportunities for achievement and contribution.

This requires the ability to stop doing what waste resources rather than maximizes them.

How to get started in the abandonment process

Drucker offers us some sage advice on this issue. He pointed out that savvy executives never start out with what should be abandoned: *"They* *start by thinking through what should be strengthened and built. They do not start by trying to save money. They start by trying to build performance."*

After it's decided what should be strengthened, the process of deciding what should be abandoned begins. No nation or institution has infinite resources. Resources must be freed–especially, first-rate people–to work on the opportunity areas.

Every organization, stressed Drucker has to adhere to the following prescription to increase organizational productivity:

1) Abandon the things that do not work, the things that never worked; the things that have outlived their usefulness and their capacity to contribute

2) Concentrate on the things that work, the things that produce results, the things that improve the organization's ability to perform; and

3) Analyze the half-successes and the failures. Achieving more with less requires abandoning whatever does not perform and doing more of whatever does perform.

Abandonment can take different forms

Drucker strongly suggested organizations develop abandonment policies that call for monthly meetings to seriously discuss the *what to* abandon and *how to* abandon – – from products to personnel policies.

Further, he highlighted the fact that abandonment may take different forms. The right answer to abandonment may be to do more of the same but to do it differently.

Drucker gave the following example:

"... Every book publisher knows that the bulk of its sales (some 60%) – and practically all of its profits – come from the "backlist," that is, from titles that have been out more than a year or two.

But no book publisher puts resources into selling the backlist. All the efforts are put into selling new titles.

A major publishing firm had tried for years to get its salespeople to sell the backlist without any success; but it also did not itself spend a penny on promoting it. Then one outside director asked: 'would we handle the backlist the way we do if we went into it now?'

And when the answer was a unanimous 'no,' she asked: 'What would we do now?'

As a result the firm reorganized itself into two separate units: one buying, editing, promoting and selling the new titles in the current year; one promoting the backlist.

Within two years backlist sales almost tripled – and the firm's profits doubled."

Still another example comes from a Forbes magazine interview with Michael Milken:

"'In 1979 people told me Lorimar was going bankrupt. But Lorimar could be made more profitable overnight. Just stop making movies. Over a couple of years, they lost $50 million making movies.

But it had its other asset, this terrific asset which was obscured by the movie losses. It had a library of TV film on the books for very little that was worth a huge amount.

So we used this zero-book-value asset for financing based on the value of the library for TV syndication. No one had ever done that before. That was real value added.'

Every organization should systematically ask two questions:

1. What should we abandon? and;

2. How should we abandon it?

If this is not practiced systematically, abandonment decisions will always be postponed indefinitely.

Summary of Drucker Strategy #1

With all the talk today about "achieving more with less," it's strange how seldom the topic of abandonment enters the discussion.

The key to achieving more with less is to develop abandonment policies.

In the times we're about to enter, every organization— business or non-business public service institution needs to develop policies for abandonment. Organized, continuous, disciplined efforts are needed.

Strategy #2: Continuous Productivity Improvement

Success gets sustained by cultivating the right efforts and by getting everyone in the organization to do things a little better and get better results.

STRATEGY #2: CONTINUOUS PRODUCTIVITY IMPROVEMENT

Most things get done in small doses. "Every day in every way I'm getting better and better," goes the inspirational mantra.

Japanese business language speaks descriptively *of Kaizen*, systematic continuous improvement of products and services, production processes, marketing, service, technology, training, and development of people and the like.

Drucker believed to get better one step at a time is a far better way to get better than shooting constantly for the moon. Major or so-called "quantum leaps" into sudden business success are rare. That is why they make the headlines, as so do similarly sudden and spectacular flops.

"Sustained success", noted Harvard's Ted Levitt, "*is largely a matter of focusing regularly on the right things and making a lot of uncelebrated little improvements every day… Getting better and better one step at a time adds up…"*

To repeat the lessons from the last strategy (Organized Abandonment): Improving things little by little does not mean sticking wrongly to what should no longer be done. Abandonment decisions come first.

Are you getting any better?

Continuous improvements in any area eventually transform the operation. They lead to product innovation. They lead to service innovation. They lead to reengineered or new processes. They lead to new businesses. Eventually continuous improvements lead to creating a new and different organization.

Internal Benchmarking and Its Role in Setting Continuous Improvement Goals

Whether it is recognized or not, the organization and practice of continuous improvement management is derived largely from the early pioneering work of the Bell Telephone System.

Said Drucker: "*Continuous improvement is considered a Japanese invention--the Japanese call it Kaizen. But in fact it was used almost(100) years ago, and in the United States.*

From the First World War until the early '80s, when it was dissolved, the Bell Telephone System applied " continuous improvement " to every one of its activities and processes, whether it was installing a telephone in a home or manufacturing switch gear...

For every one of these activities, Bell defined results {relating to} performance, quality, and cost. And for every one, it set an annual improvement goal. Bell managers weren't rewarded for reaching these goals, but those who did not reach them were out of the running and rarely given a second chance. "

Simply put, internal benchmarking means comparing the performance of an operation with the performance of all others, with *the best becoming the standard* to be met by *all* the following year. This is a very practical way to set annual continuous improvement goals.

Every organization has to ask what can we do to improve. It needs to figure out required practices that make this happen in a routine way.

The Role of Creative Imitation in Continuous Improvement

Drucker, Tom Peters and Ted Levitt constantly reminded us, before all our R&D energies and imaginations are too one sidedly directed at the creation of innovations, it is equally important to closely monitor competitor activity.

In short, they observed the greatest flow of newness that occurs in most organizations is not really innovation. It is either *copycat imitation or innovative imitation*. It's important to render this explicit.

Today some call this benchmarking the competition. Tom Peters probably said it best 15 years ago in his book T*hriving On Chaos:*

"Fighting NIH ("Not Invented Here") is a tough job. NIH is marked by an endless number of denials: (1) We can't copy old rivals because' if we did, (a) it would be dumb or (b) we wouldn't want to look like them' […] As a manager trades in 'Not Invented Here' for 'Not Invented Here, But Swiped from the Best with Pride […] The best leaders are the best note-takers, the best 'askers' the best learners. They are shameless thieves.

Grocer Stew Leonard heard a great little idea from an executive in the Department of Defense at a meeting I attended in late 1986; he implemented within the week. There was no NIH (Not Invented Here). No 'Gee, if it's DOD, it must be bad.'The only operative question was: 'Will it work [with a twist or two] for us?'

Peters goes on to explain why the best have the following attitude: *"Somebody, somewhere, big or small, near or far, has introduced a service (or product) we could copy with enhancements––today."*

What's Peter's saying? Put NIH (Not Invented Here) behind you – and learn to copy with unique adaptation/enhancement from the best. Do so by aggressively seeking out the knowledge of competitors (small and overseas, not just tired old foes) and interesting non-competitors.

If an organization practices "creative swiping" it will improve quality, service responsiveness and all the rest. In short, innovative imitation is a worthy continuous improvement strategy. Make it a practice. (In a future article we will discuss how to formalize the imitation process).

Summary of Drucker Strategy #2

Success gets sustained by cultivating the right efforts and by getting everyone in the organization to do things a little better and get better results.

Benchmarking is a great way to practice continuous improvement. Internal benchmarking is one way to set continuous improvement goals and all the information needed would/should be readily accessible. External benchmarking (i.e. creative imitation) is another way to continuously improve products, services, distributive channels, and the like.

If this is done, effort and vision builds, little by little, into a cumulating momentum. Setting quantitative improvement goals or targets works wonders in making continuous improvement happen.

Strategy# 3: Exploiting Success

"By the time an industry growing rapidly has doubled in volume, the way it perceives and services its market is likely to have become inappropriate… In particular, the ways in which the traditional leaders define and segment the market no longer reflect reality, they reflect history."

STRATEGY# 3: EXPLOITING SUCCESS

Continuous improvement aims at making the already successful better still. It's a never-ending activity that requires specific quantitative goals, such as annual improvements of 3% or 5% in cost, quality, and customer satisfaction.

Exploiting success, according to Drucker, relates to becoming an opportunity- focused organization. Problems cannot be ignored. And serious problems have to be addressed and solved.

Do you see problems or opportunities?

But for an organization to succeed they must focus on opportunities, not problems. They have to "starve problems and feed opportunities."

One practice that should be followed religiously is having "opportunity meetings" in addition to "problem meetings." Opportunity meetings illuminate what's working and should be expanded in a variety of forms.

Most meetings discuss "problems" and the "opportunities" tend to be ignored. Opportunity meetings focuses ATTENTION on opportunities that can/should be exploited. As simple as this sounds, attention is a key driver of exploiting success.

We only react to - or pay attention to - what we are presented with. If we are presented with problems, that's where our attention will be focused. If we are presented with opportunities, then our attention will be focused on opportunities.

Exploiting Success Can Mean Many Things

The significance of many business decisions is that they inescapably deal with the future, i.e. with what is to be done, rather than what has been done. Levitt, among others, wrote extensively about exploiting success using the predictive capabilities of the product life cycle concept.

Levitt showed how to extend a product's life by systematically promoting *more frequent usage* of the product among current users… developing *more varied usage* of the product among current users… *creating new users* for the product by expanding the market (geographically and through market segmentation)… and *developing new uses* for the product (e.g. nylon was originally used for parachutes, thread and rope until DuPont expanded its use by entering the woman's hosiery market).

Sony, in their earlier days, used each successful new product as a stepping stone to the next one. The Walkman, for instance, evolved from the original tape recorder.

Splintering Markets

Drucker recommended that organizations practice active surveillance of existing markets with respect to how they are splintering. New market segments always emerge. And these new market segments represent new opportunities for growth.

Said Drucker: *"By the time an industry growing rapidly has doubled in volume, the way it perceives and services its market is likely to have become inappropriate… In particular, the ways in which the traditional leaders define and segment the market no longer reflect reality, they reflect history."*

This is a very powerful insight.

Markets always splinter. Organizations must be proactive in looking for niches within the markets they already serve in order to exploit success.

Simple? Yes. But unless it's part of an executive's thought process, new opportunities for growth via exploiting success remains only a good intention.

Summary of Drucker's Strategy #3

As in continuous improvement, exploitation of existing success will, sooner or later, lead to genuine *innovation. "There comes a point when the small steps of exploitation result in a major, fundamental change, that is, in something that is generally new and different."*

Exploiting success is greatly aided by using various tools such as the product life cycle concept.

Strategy #4: Innovation

"Innovative companies realize that one cannot simultaneously create the new and take care of what one already has in full operation. The maintenance of the present business is far too big a task for the people in it to have much time for creating the new, different business for tomorrow."

STRATEGY #4: INNOVATION

There is a difference between improvement and innovation. Improvement usually *means more and better.* Innovation refers to *creating and implementing the new and different.*

Big difference. Improvement is much easier. True Innovation tends to be resisted by the existing organization.

Organizational inertia always pushes for continuing what the organization is already doing. Newness of more than a trivial dimension is typically squashed by the ongoing organization. Yes, squashed!

Slightly paraphrasing Ted Levitt:

"Anyone who tends to doubt this needs only to examine please his/her organizational experience. Whether in a organization, a government agency,a country club, or church, an intense and usually fierce struggle predictably surrounds efforts to do drastically new or different things…

… One may ponder why the struggles are always so abrasive, and why the leaders of change efforts always pay such a heavy personal price…"

What? And you want me to innovate too?!?

"Give us This Day Our Daily Bread"

Drucker and Levitt showed that the most important task of the existing organization is to get today's job done. Rules, procedures, and standards define what is to be done, and how.

"Allegiance to the daily task remains the predominant and inevitable focus. Within this *powerfully constraining context,"* noted Levitt, *"to focus as well on trying to get powerful innovations – to do entirely new and therefore disruptive things – is an especially difficult and fragile undertaking."*

Most organizations establish order and discipline, that is, deep routinization of a significant part of the work required to produce today's products and services. Innovation, or doing new and different things, by its very nature destabilizes the organizational structure.

This makes many managers uncomfortable – – especially, those without experience in how to accommodate needed innovations.

Wherever routine reigns expect fierce resistance to innovation and innovators.

To reiterate: Newness is unsettling and disruptive to the daily tasks. Therefore, the human tendency is to focus on today's job and *purge* from the system anything that is perceived as disruptive.

Producing and Managing Innovation

So, how can an organization successfully practice innovation? Drucker's contribution to the area of creating and managing innovation is without equal.

In this section, we going to briefly discuss only one many of Drucker's prescriptions for making innovation happen – namely, structuring for innovation. This is particularly relevant given the above discussion of how the existing organization consciously or unconsciously tends to sabotage newness.

Structure for Innovation

Many innovative activities must be organized separately and outside of the ongoing managerial business. Repeat this five times to yourself. It could save your organization millions of dollars and prevent lost opportunities.

"Innovative companies realize that one cannot simultaneously create the new and take care of what one already has in full operation. The maintenance of the present business is far too big a task for the people in it to have much time for creating the new, different business for tomorrow."

Making tomorrow happen is far too big and difficult task to be diluted with concern for today. Both tasks have to be done. But they are different.

We cannot emphasize this enough. Innovative organizations put the new into separate organizational components concerned with the creation of the new.

Take, for example, universities and colleges entering the field of web-based degree granting and certification programs. The savvy schools such as Cornell and Penn State have created completely separate entities to deliver, market, and grow web-based programs.

If this is not done it is almost guaranteed that "a war of the ancients against the moderns" will erupt and threaten the internal upstart web-based learning organization – and deprive it of the resources needed to innovate successfully.

We all know from a great deal of experience that "Big Bang" transformations when done within the existing organization almost always fail, creating frustrated, demoralized, and sometimes embittered employees. Equally bad, it inevitably produces marginal success (at best) with little sustainable or lasting impact.

For the existing business to be capable of innovation, it has to create a structure that allows people to be entrepreneurial.

It has to be sure that its rewards and incentives, its compensation, personnel decisions, and policies reward the right entrepreneurial behavior and not penalize it.

Summary of Drucker's Strategy #4

The existing business tends to squash newness of any kind. Organizations exist, as Drucker has so effectively argued, to get specific results.

People do not willingly subject themselves to rules, procedures, bosses, and deadlines for performance. They do so because the results they seek would otherwise be unattainable.

The organization exists to get today's job done. It's quite difficult, if not impossible, to do tomorrow's job very well. Tomorrow's job in many instances, needs a new structural entity, an autonomous, fully-functioning organization of its own.

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